

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Chief Financial Officer  
Office of Tax and Revenue

Karen  
FYI



**MEMORANDUM**

**TO:** Robert G. Andary, Executive Director  
Office of Integrity and Oversight

**FROM:** Stephen M. Cordi, Deputy Chief Financial Officer  
Officer for Tax and Revenue

**DATE:** February 15 2008

**SUBJECT:** Response to the Management Alert: The Integrated Tax System's  
Systemic Weaknesses Hamper Internal Controls (IA:OTR:2803:C05)

The Office of Tax and Revenue (OTR) is please to provide this response to the Management Alert entitled "The Integrated Tax System's Systemic Weaknesses Hamper Internal Controls (IA:OTR:2803:C05)".

**GENERAL COMMENTS:**

The Integrated Tax System (ITS) is comprised of several applications supporting the administration of the District's Individual, Business and Real Property taxes. ITS functionally includes, but is not limited to, the capture of tax return filing data, validation of tax information, processing of tax payments, creation of delinquent cases for collections tracking, application of penalty and interest, tax billing, generation of taxpayer notices, generation of tax refunds and executive reporting. ITS also supports online filing via the Internet, customer contact tracking and imaging of files returns.

Implemented in phases from 2000 to 2005, the ITS replaced a set of four separate incompatible legacy systems built in the 1960's and 1980's that severely limited the District's ability to identify taxpayers that either owed taxes and/or were due a refund. Consequently, these stove-piped systems were woefully ineffective in providing OTR with the requisite information required for efficient tax information.

ITS is the major factor that has allowed the District to realize the increase in tax collections that in conjunction with sound financial management practices has resulted in the District's outstanding fiscal position.

**Finding 1: Inadequate controls over the ability to make on-line adjustments without management approval.**

**Response: Concur.**

OTR agrees there is minimal and inconsistent management supervision of the adjustments made to taxpayer accounts in ITS. We also agree that this lack of consistent supervisory oversight poses serious risk related to refunds, taxpayer liability and employee integrity.

**Recommendation: We recommend that OTR review this area, determine the positions that should have the capability to adjust taxpayer accounts and to what degree, and address the duties and responsibilities of managers to assure effectiveness and integrity of the process. In the interim, we recommend managers review on-line adjustments made by employees to ensure that adjustments are proper.**

OTR has begun a comprehensive review of security related to on-line ITS taxpayer adjustments. In this review each OTR director will be responsible for examining their administration's positions as well as the current ITS security user classes related to these positions to ensure that only those individuals who should have the capability to adjust taxpayer accounts have the system rights to do so. It is expected that each director will request the removal of specific access for those employees having inappropriate on-line rights as well as request the modification of ITS security user classes to better enforce on-line adjustment security.

OTR will also review and address the duties and responsibilities of managers to assure effectiveness and integrity of the adjustment process and the administration of ITS security user classes going forward.

In its current state of functionality, the ITS does not require manager review of all on-line adjustments made by employees. Only a select group of adjustments are sent to the review queue and there are often additional criteria that may force a review item. It is not viable to require all adjustments be reviewed on-line as this will cause unacceptable processing delays. OTR will review all the possible ITS taxpayer adjustments to determine those most critical for review. These will be added as new review items.

OTR will analyze the feasibility of incorporating a hierarchical structure to control the approval of review items, requiring certain review items to be approved only by supervisors. This functionality does not exist currently in ITS.

OTR will develop reports listing all on-line adjustments to taxpayer accounts sorted by supervisor. These will be distributed on a weekly basis to all OTR supervisors having subordinates with the ITS authority to make taxpayer adjustments. The reports will also

be distributed to all administration directors, the Director of Operations and I. The supervisors will review this report within three business days of receipt. If any concerns are identified, the supervisor will meet with those involved as well as the appropriate team leads to rectify the erroneous practice within one business day.

A comprehensive training program for performing taxpayer adjustments will be developed and all appropriate personnel will be required to complete the training program. To ensure adjustment quality is improved as quickly as possible, a desk aid describing the procedures for making taxpayer adjustments will be developed as soon as possible and reviewed with all appropriate ITS users.

**Finding 2: Refunds generated from on-line adjustments have an improper audit trail and are bypassing the refund review queue.**

**Response: Concur.**

OTR agrees that the ITS audit trail does erroneously indicate a system user, who makes an on-line adjustment to a taxpayer account that results in the automatic generation of a refund, as the approver of the refund. As a corollary, it is also possible that a system user who does not have the system security rights to approve a refund can make an adjustment that results in the automatic generation of a refund.

**Recommendation: We recommend that OTR management request a system modification in ITS to require refunds that result in a line item adjustment go to [the] review queue before being released for payment. This will allow for a thorough review process before the refund is sent to the taxpayer.**

**Additionally, OTR management should request a modification to the audit trail program to ensure that it accurately reflects the person who modified and who approves an account. (See additional audit trail findings below.)**

As stated in Finding 1 above, it is not viable to require all adjustments be reviewed on-line as this will cause unacceptable processing delays. We will implement business rules within ITS to trigger a review item whenever a taxpayer account adjustment causes the tax liability to change by an amount greater or less than a specified amount. In addition, we will implement business rules within ITS to trigger a review item whenever a taxpayer account adjustment causes a refund greater than a specified amount to be automatically generated.

OTR will also modify ITS on-line audit process to ensure it accurately reflects the person who modified or adjusts a taxpayer's account separately and distinctly from the person who approves account review items and/or refunds.

**Finding 3: User identification is not properly maintained in ITS.**

**Response: Concur.**

**Recommendation:**

**OTR should immediately discontinue the practice of recycling User ID's and issue unique identifiers to new employees.**

**OTR should work with the Office of the Chief Technology Officer (OCTO) on the need to modify the ITS naming convention to ensure that unique User ID's are assigned to users. This will also improve internal controls and ensure that audit trails remain intact.**

**OTR should perform a data clean-up on User ID information to ensure that the employee telephone number and organization are correct in ITS.**

OTR will immediately analyze the technical impact to ITS software related to discontinuing the practice of recycling ITS User ID's. During this analysis OTR will consult with the Office of the Chief Technology Officer. It is OTR's intent to modify ITS as soon as feasibly possible to discontinue the recycling of ITS User ID's.

Information related to ITS users such as employee telephone number and organization can be modified on-line. Each administration within OTR will review this information and perform an on-line data clean-up for those users within their respective administrations.

**Finding 4: ITS User Classes are not properly maintained.**

**Response: Concur.**

ITS user classes are the security profiles which define ITS job tasks (functions) a system user has authority to perform. Each ITS user is assigned to one or more user classes based upon that user's position or job description within OTR. OTR agrees lax control over ITS user classes and user class assignments has increased the risk of employees having the ability to adjust accounts or release refunds without having a business need to do so.

**Recommendation: We recommend that OTR, under the overall direction and oversight of a senior official, perform a comprehensive analysis of all OTR user classes and determine the job tasks that each will be allowed to perform.**

As stated in Finding 1 above, OTR has begun a comprehensive analysis/review of security related to on-line ITS taxpayer adjustments. In this analysis each OTR director will be responsible for examining their administrations' positions as well as the current ITS user classes related to these positions to 1) ensure each ITS user class is accurately defined to include only those job tasks appropriate to the related OTR position; and 2)

ensure that all individuals given access to on-line ITS functionality are assigned to the appropriate ITS user class or classes based on their position. Upon completion of this analysis the corresponding modifications will be made to the ITS On-Line Security Tables.

A complete review of the operating procedures related to requesting new ITS user classes and assigning or removing system users from new and existing users classes will also be preformed.

Oversight and direction related to these efforts will be the responsibility of Director of Operations for OTR. The Director of Operations reports directly to the OTR's Deputy Chief Financial Officer.

If you have any questions, please contact Glen Groff, Acting Director of Operations, at (202) 442-6499.

cc: Natwar M. Gandhi, Chief Financial Officer  
Lucille Dickinson, Chief of Staff, CFO  
Angell Jacobs, Director of Operations, CFO  
Glen Groff, Acting Director of Operations, OTR  
Michael Teller, Chief Information Officer  
James Hightower, Director, CIO  
Frank R. Milligan, Director of Internal Security, OIO  
Mohamad Yusuff, Director of Internal Audit, OIO

**Scenario for Integrity Discussions with Senior OCFO Officials**

**Official:** \_\_\_\_\_ **Office:** \_\_\_\_\_

**Date:** \_\_\_\_\_

- Review any prior projects, especially progress on recommendations
- Solicit integrity concerns from DCFO/ACFO
  - If none readily identified, discuss operational risks, e.g.-
    - Confidentiality of information
    - Reissued salary payments
    - Procurement
- If suggestion or question for topic, discuss integrity focus for annual employee presentations

Notes:

Prior integrity review:

Areas of concern:

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Office of Integrity and Oversight



**MEMORANDUM**

**TO:** Natwar M. Gandhi, Chief Financial Officer  
Office of the Chief Financial Officer

Stephen M. Cordi, Deputy Chief Financial  
Officer for Tax and Revenue

**FROM:** Sebastian Lorigo, Executive Director  
Office of Integrity and Oversight

**DATE:** January 31, 2008

**SUBJECT:** Management Alert: The Integrated Tax System's Systemic Weaknesses Hamper  
Internal Controls (IA:OTR:2803:C05)

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The Office of Integrity and Oversight (OIO) has assigned three auditors to the Office of Tax and Revenue to assist in the development of refund review criteria, perform an audit of the tax sale, and review operations to define auditable areas.

As part of our task, we met with OTR staff and performed limited reviews of transactions that are processed through the Integrated Tax System (ITS). As a result, several systemic weaknesses within ITS have come to our attention.

The purpose of this Management Alert is to advise you of specific areas that we have identified which warrant immediate management attention, specifically:

- Inadequate controls over the ability to make on-line adjustments without management approval;
- Lack of review for refunds generated as a result of on-line adjustments;
- Vulnerabilities in the ITS User Identification process; and
- Vulnerabilities in the maintenance of the ITS Employee User Classes.

**Finding 1: Inadequate controls over the ability to make on-line adjustments without management approval**

The ITS allows users to adjust taxpayer accounts for various reasons, such as additional information received from the taxpayer, abate penalty and interest, apply credits from other periods, report results of an audit of the tax return, or correct processing errors, such as a

- Additionally, OTR management should request a modification to the audit trail program to ensure that it accurately reflects the person who modifies and who approves an account. (See additional audit trail findings below.)

**Finding 3: User Identification is not properly maintained in ITS.**

The ITS User Identifications (User ID's) are assigned to OTR employees by the Information Systems Administration (ISA) upon receipt of a completed request form authorized by management. The Office of the Chief Technology Officer (OCTO) prescribed the ITS naming convention which is currently three letters and three numbers (ex. ITS490). The employee retains the ITS User ID through his/her employment with OTR. However, if the employee leaves OTR or does not log into the system for more than 30 days, the ITS User ID may be deleted or recycled and given to a new employee. The impact of this practice is detrimental to the maintenance of the audit trail.

The ITS is supposed to maintain an audit trail of the employees who have made adjustments to taxpayer accounts. However, in the current process, if a new employee receives a formerly used ITS User ID, the new employee becomes associated with the actions taken by the former employee, thereby distorting the audit trail. Additionally, if the employee User ID is deleted due to 30 consecutive days without logging in to ITS, the employee's name is removed from the system. As a result, any notes or actions taken by the formerly assigned employee are retained in the system, but they are attributed to the currently assigned employee.

Additionally, we found that the User ID profile screen in ITS contains inaccurate information relating to the employee information, such as an incorrect telephone number and organization.

*Recommendation*

- OTR should immediately discontinue the practice of recycling User ID's and issue unique identifiers to new employees.
- OTR should work with OCTO on the need to modify the ITS naming convention to ensure that unique User ID's are assigned to users. This will also improve internal controls and ensure that audit trails remain intact.
- OTR should perform a data clean-up on User ID information to ensure that the employee telephone number and organization information are correct in ITS.

**Finding 4: ITS User Classes are not properly maintained.**

Employees who use ITS are placed into user classes based on their job duties. However, if a person moves within the organization, their rights in the former organization are not consistently